

FACT SHEET: "A Vote for Our Servicemembers"

The Administration made history in July of 2010 by signing the Wall Street Reform and Consumer Protection Act to put in place in the most significant reforms of our financial system since the Great Depression. One of the key pieces of this legislation was the creation of the Consumer Financial Protection Bureau (CFPB).

Today, Holly Petraeus the new Assistant Director, of the Office of Servicemember Affairs in the CFPB testified in front of the Senate Banking Committee on the topic of "Empowering and Protecting Servicemembers, their Families, and Veterans in the Consumer Financial Marketplace." The CFPB has a critical role to play in this area because too many of our nation's veterans and current servicemembers are at risk of being targeted by unfair, deceptive, abusive, or discriminatory practices when they seek loans or other financial services.

To the detriment of our nation's servicemembers, Senate Republicans have insisted on refusing to confirm Richard Cordray as Director of the CFPB. The lack of a Director has left the CFPB hamstrung in its ability to fully protect military families, and many other groups of Americans by providing oversight of non-bank institutions like payday lenders, private student lenders, and debt collectors.

Servicemembers Are Often a Primary Targets for Harmful Financial Products

- Military Families Have Characteristics That Make Them a Target of Predatory Lenders. According to the Department of Defense, nearly 50% of enlisted Service members are under the age of 25, typically lacking experience in managing finances, and without a cushion of savings to help them through emergencies.¹ Even older military families often need to move to new locations where they are unfamiliar with local financial institutions and susceptible to deceptive marketing practices. And military families face additional expenses such as child care bills and travel costs resulting from deployments and frequent moves that in many instances force them to seek out additional borrowing options.

Servicemembers Often Use Non-Banks That Offer Misleading Products

- Internet Payday Lending: The Military Lending Act (MLA) made important strides in protecting Servicemembers and Veterans from abusive products like payday loans. However, while the Act has had an impact in stopping storefront payday lenders, internet payday lenders that market loans online to servicemembers across the globe have proved harder to effectively regulate. A recent report found that internet payday lenders are charging cash strapped consumers, like service members, exceptionally high rates that keep them mired in debt. According to the report, finance charges to borrow \$100 can range from \$15 to \$30.²

¹ http://www.defense.gov/pubs/pdfs/Report_to_Congress_final.pdf.

² http://www.consumerfed.org/pdfs/pr_CFPB%20Cordray%20Nomination%20Vote%20statement%2010-5-11.pdf

- Installment Lenders: Existing protections for servicemembers also do not cover certain types of installment loans. As a result, installment loan companies that have offices near military bases and market loans online exclusively to the military are sometimes not covered by the MLA and other consumer protections.³ The Department of Defense found that the cost of loans was often not disclosed on installment lender sites and APRs ranged from 391.07% to 782.14% APR for some installment loans.⁴
- Debt Collectors: Furthermore, when servicemembers are unable to pay their debts, they may be subject to harassment and threats from debt collectors. Moreover, these debt collectors can engage in illegal and unlawful behavior. Several Attorney Generals have taken legal actions against debt collectors, some of whom specifically targeted military personnel. Action was taken for practices including threatening consumers and even falsely representing themselves as attorneys.⁵

The CFPB Is Making Important Progress in Protecting Servicemembers from Harmful Practices

The CFPB has already been hard at work to begin its work of helping American servicemembers, as Holly Petraeus described in her testimony today:

- *Joint Statement of Principles with JAGs*: The CFPB signed a Joint Statement of Principles with the Judge Advocate Generals (JAGs) of all the services: Army, Navy, Air Force, Marine Corps, and Coast Guard. This will allow CFPB and the JAGs a functioning structure to ensure a proper exchange of information takes place in addressing some of these abusive practices.
- *Work with VA on Foreclosures*: The CFPB has also recently put in place a working agreement with the Department of Veterans Affairs (VA). The agreement allows the CFPB to refer services members in danger of foreclosure to the VA which has expertise on the options available to help military personnel or veterans regardless of whether they have a VA Loan Guarantee or not.
- *Improving Financial Education*: The CFPB is working with the Department of Defense to ensure that the right tools and information are available to servicemembers so that they recognize the warnings signs of abusive and deceptive financial products and can make informed decisions

However Without a Director, the CFPB Cannot Support Full Transparency and Protections to Servicemembers

³ <http://www.consumerfed.org/pdfs/CFPBMLCFACommentsSeptember20.pdf>

⁴ http://www.defense.gov/pubs/pdfs/report_to_congress_final.pdf

⁵ http://www.ag.ny.gov/media_center/2011/feb/feb18a_11.html

<https://www.oag.state.tx.us/oagnews/release.php?id=2587>

- A key part of CFPB's mission is to provide robust federal supervision and oversight over key non-bank institutions. However, the CFPB needs a Director to ensure that our men and women in uniform are protected from the debt collectors, installment lenders, and payday loan providers that target them.
- This is because, without a Director in place the CFPB cannot exercise its full supervisory authorities over non-bank institutions. While the CFPB already has supervisors inside major banks and their affiliates to oversee their activities, non-bank institutions will not be supervised in a similar manner until a director is in place.
- Once a director is in place, the CFPB will be able to demand accountability on behalf of our servicemembers and their families. Once the CFPB has its full authorities, it will be able to ensure that our men and women in uniform are no longer subject to these harmful practices.